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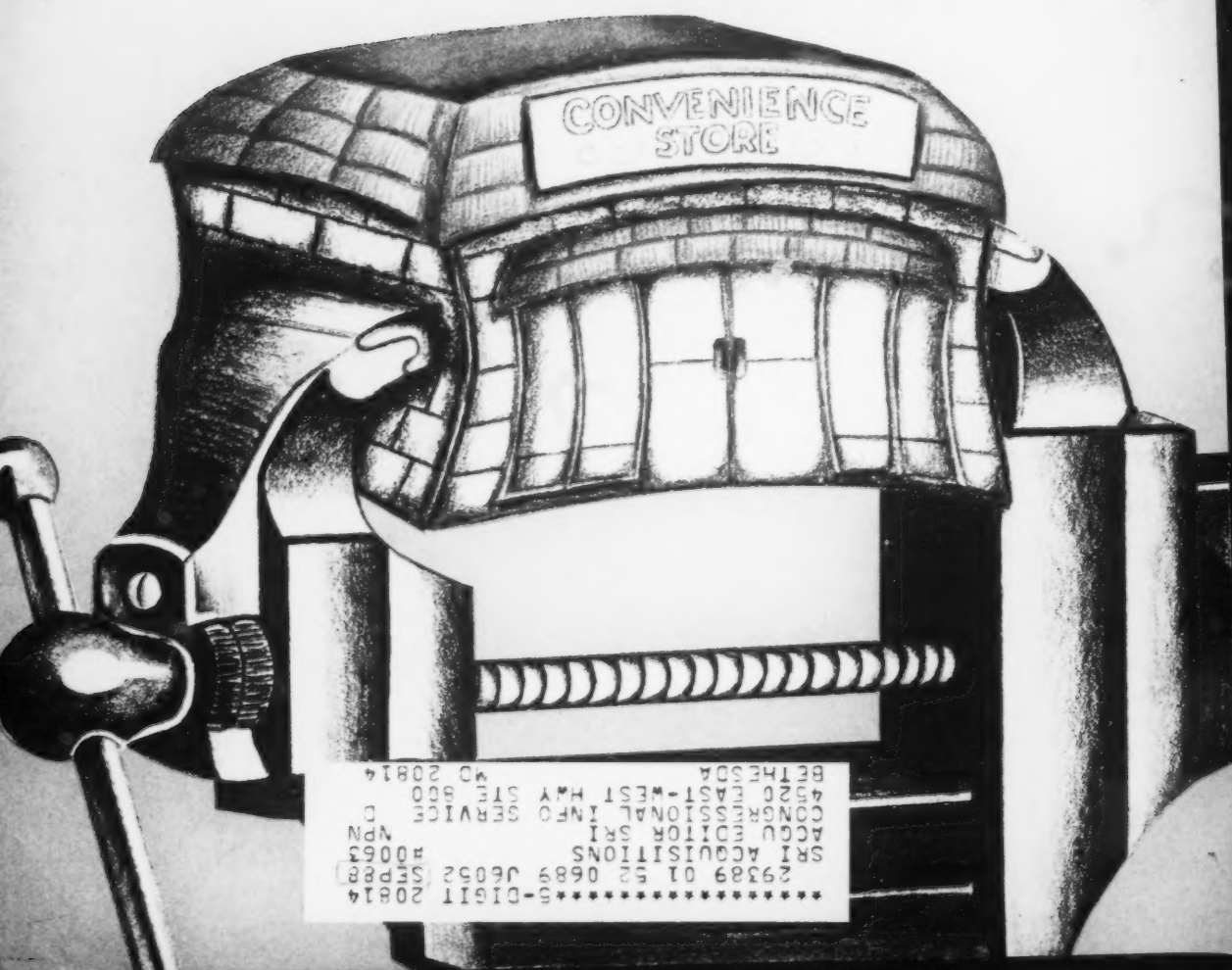
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What You Should Know About Truck Rentals
How Video Training Saves Employers Money
Why Crown Central Bears Watching

NPN

Who'll Get the Edge
In C-Store Wars?



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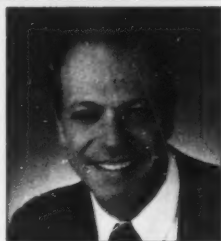
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Editor's Viewpoint

Back when petroleum marketers first began operating convenience stores at their gasoline stations, competition was relatively mild. C-store sales were strong and high profit margins common. Those happy times lasted quite some time, all things considered. But others—lots of them—were eventually attracted to the market and the result was inevitable.

Competition increased, price cutting began and profit margins shrunk. Meanwhile, the cost of starting a C-store jumped. According to the National Assn. of Convenience Stores, average C-store profits dropped almost 17% between 1984 and 1987, while the average cost of opening a new store in an urban area increased by about 37-1/2%. A nasty combination.

That's for openers. A new element has been added. The majors and large independent oil companies have been involved in C-stores for some time. However, as this month's cover story points out, they are now apparently rolling into the market in a big way. What they have working for them is a massive inventory of excellent locations (bought when land prices were much lower). Traditional C-store chains will be hard pressed to match them and some industry observers state flatly that on this basis alone the chains are already in trouble. In addition, the chains must contend with independent jobbers who also have many good locations and plenty of C-store experience.

Convenience store chains are under the gun. However, jobbers will no doubt feel the pressure as well. As the oil companies increase their presence in the C-store market and the chains fight to hold their turf, the competition will become even more fierce than it has in the past few years and sales and margins are bound to suffer. Stores will be added in already overbuilt markets and the process will probably spill over into less saturated areas. There is speculation that we'll have a replay of what happened in the service station market before the oil shocks of the 70s and the eventual shake out that followed.

Some marketers saw the handwriting on the wall early and began shying away from the C-stores. Others have gradually followed suit. That doesn't mean the C-store business is a dead issue for jobbers. But the glory days of fast, relatively easy profits are over. Jobbers who now have C-stores on good locations or in areas where the market is not overbuilt will fare reasonably well in most cases. Many of them already have a good pay back on their investment and can accept lower sales and margins. But those who are considering new stores should think and rethink the idea and be very cautious if they proceed. The way the market seems to be shaping up, there will be very little room for error. And a mistake will be very costly.

—Frank M. Victoria

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The big oil companies may have been late to the convenience store game, but they're making up for lost time and threaten to become a dominant force in the C-store market with their advantages of location and oil-derived resources. **Page 40**



Approximately 17-million U.S. households will move this year and 4.5-million of those will hire a do-it-yourself truck for the job. Here's another opportunity for marketers looking for diversified profit streams. **Page 48**



Crown Central Petroleum Corp., now out of debt and flush with investment capital, is shooting for bigger gasoline volumes in the rich East Coast market. But it will have to tough it out against some hardball competitors. **Page 52**

Good Second Quarter Upstream and Downstream

The return of good times in the first quarter found their counterpart in the financial reports of most major oil companies in the second quarter as well. A number of companies made no bones about it: Downstream earnings were the prime reasons for good corporate profits as a whole.

At least four oil companies have already earned more than \$1-billion so far and three more are likely to join them during the third quarter underway. The billion dollar biggies so far are Exxon, Chevron, Shell and Amoco. Not far behind and ready to join them are Mobil, Texaco and Arco.

The possibility of peace in the Middle East could mean an even brighter picture because an ease in tensions might bring an improvement in crude oil (and, consequently, marketing) prices. If so, the current year could end up as the industry's most profitable yet.

Upstream: Most Nets Are Gold-Plated

	2nd. Qtr. 1988	2nd. Qtr. 1987	% Chng.	1st. Half 1988	1st Half 1977	% Chng.
(millions of dollars)						
Exxon	\$1,200.0	\$1,150.0	4.3%	\$2,655.0	\$2,222.0	19.5%
Mobil	487.0	304.0	60.2	992.0	556.0	78.4
Chevron	520.0	358.0	42.3	1,173.0	719.0	63.1
Texaco	527.0	129.0	308.5	769.0	247.0	211.3
Shell	263.0	266.0	(1.1)	1,509.0	374.0	303.5
Amoco	667.0	311.0	114.5	1,136.0	571.0	98.9
BP-America	596.0	430.0	38.6	1,330.0	929.0	43.2
Arco	400.0	330.0	21.2	801.0	569.0	40.8
Tenneco (a)	154.0	46.0	62.0	217.0	75.0	189.3
Conoco	62.0	33.0	87.8	97.0	48.0	102.1
Sun	(201.0)	90.0	—	(141.0)	128.0	—
Phillips	170.0	3.0	556.7	300.0	(29.0)	—
Unocal	64.0	62.0	3.2	242.0	193.0	25.4
Marathon*	120.0	218.0	(44.6)	204.0	333.0	(38.7)
Coastal (a)	30.6	23.3	31.3	77.1	66.4	16.1
Amerada Hess	(23.5)	89.4	—	42.2	270.9	(84.2)
Ashland**	56.9	40.0	42.2	148.6	67.9	118.9
Diamond Shamrock	11.9	2.2	440.9	7.1	4.9	44.9
Pennzoil	1,388.7	7.8	17,774.0	1,400.0	21.7	6,446.0
Kerr-McGee	35.8	27.3	31.1	46.1	47.5	(2.9)
Murphy	9.4	7.1	32.4	3.0	10.2	(70.6)
Amer. Petrofina	39.4	28.7	19.9	64.8	48.5	33.6
Citgo	33.9	22.8	48.6	75.7	71.2	6.3
Getty	NA	NA	NA	NA	NA	NA
Cumb/Gulf	NA	NA	NA	NA	NA	NA

* Operating income; ** 3rd qtr., fiscal ends 9/30; (a) Corporate, includes oil company operations.

Downstream: These Nets Are Rosy Too

	(millions of dollars)					
Exxon	281.0	19.0	1379.0	712.0	55.0	1194.5
Domestic	100.0	(19.0)	—	194.0	57.0	340.0
Foreign	181.0	38.0	376.3	518.0	112.0	362.5
Mobil	260.0	84.0	209.5	477.0	162.0	194.4
Domestic	89.0	17.0	423.5	190.0	19.0	1000.0
Foreign	171.0	67.0	155.2	287.0	143.0	100.7
Texaco	215.0	18.0	109.4	368.0	24.0	143.3
Domestic	108.0	(12.0)	—	200.0	(67.0)	—
Foreign	107.0	30.0	256.0	168.0	91.0	84.6
Chevron	123.0	22.0	459.0	322.0	8.0	3925.0
Domestic	91.0	(6.0)	—	225.0	(52.0)	—
Foreign	32.0	28.0	14.3	97.0	60.0	61.7
Shell	193.0	56.0	83.9	233.0	64.0	264.1
Amoco***	206.0	55.0	274.5	312.0	50.0	524.0
Arco	72.0	45.0	60.0	159.0	70.0	127.1
BP-America	312.0	211.0	47.9	564.0	502.0	12.4
Conoco	75.0	31.0	141.9	152.0	71.0	114.1
Phillips*	98.0	48.0	104.2	172.0	78.0	120.5
Sun	79.0	21.0	276.2	121.0	16.0	656.5
Domestic	78.0	15.0	420.0	118.0	3.0	3833.0
Foreign	1.0	6.0	(83.3)	3.0	13.0	(76.9)

* Operating income, pretax; *** Worldwide.

● TRENDS

China And Coastal Corp. In West Coast Venture

Another oil-producing country has joined a U.S. oil company in a joint refining and marketing venture—China. Sinochem, owned by the People's Republic of China, agreed to acquire 50% of Coastal Corp.'s West Coast refining and marketing properties for an undisclosed sum of cash. The properties consist of a 55,000 b/d refinery at Hercules, Calif., in the San Francisco Bay area; fuel-oil terminals at Los Angeles and Coos Bay, Ore.; and wholesale marketing operations at San Francisco, San Pedro, and Long Beach, Calif., and Portland, Ore. Storage at the refinery is 2.2-million bbl. and at the terminals 1.4-million bbl.

With Chinese capital, Coastal will push to acquire a West Coast service station chain, says Jack C. Pester, senior vice president for refining, marketing and supply. The company is also preparing a national branded jobber program. Coastal has been expanding its station chain in other parts of the country, but hasn't managed to break into the West Coast retail market. This will likely change soon.

Coastal now has 900 stations nationwide and is expanding fast. It has a multimillion-dollar program to identify all its retail stores as C-Mart. The stores have operated under nine different brand names, such as Derby, Joy, Pester, Wag-A-Bag, Sunshine, and Premier.

As for jobbers, Pester says, "We are not ready to really introduce what the program is, but we're on the verge of redoing a branded jobber program and so obviously we are interested in the jobbers out there (on the West Coast)."

Pester says he's interested in the 10 Texaco and 11 Exxon jobbers left without suppliers in a swap of stations between the two suppliers. Their termination is set for Oct. 31, 1988, and Pester indicated Coastal may contact them before then. The swap may be held up, however, by a suit filed by Exxon and Texaco dealers to halt the deal.

Among West Coast marketers, feelings are mixed about the Coastal-Chinese venture. Herb Richards, president of Coast Oil, a large independent chain based in San Jose, Calif., says it "might help independents by giving us one

more supplier to buy from." He says Pacific Refining has substantial storage and could import Chinese gasoline and other refined products in addition to processing Chinese crude. He doesn't see any effect at all for a while because "it takes forever up here to get approvals to do anything to a refinery."

A southern California independent who asked not to be named thinks the venture will tear up the market. "I've been following Oscar Wyatt (Coastal's chairman and CEO) for 30 years and he has disrupted every market he's gone into," he says.

Meanwhile, California producers are concerned their market will shrink even more than it already has by more than 1-million b/d of crude from Alaska and a lot more expected from California offshore fields in the 1990s. Executive vice president of the California Independent Producers Assn., Tom Hunt, calls the joint venture "dangerous" because it "increases the country's dependence on foreign crude." He says CIPA will intensify its efforts to obtain an export license for California producers "because I don't know where else the California independent is going to go." The West Coast crude surplus is expected to last into the next century.

Pacific Refining processes Alaska North Slope crude mainly, with some Californian. A major company source says Pacific Refining is price-conscious and not committed to buy Chinese crude unless the price is right. Coastal says a crude supply agreement with Sinochem is being negotiated.

Analysts view Coastal's deal as another sign that oil producing countries and major oil firms expect low crude prices indefinitely and see their best profits in refining and marketing in combination with a stable, favorable crude supply arrangement. Besides joint ventures with U.S. oil companies by Venezuela and Italy, Saudi Arabia has agreed to joint ownership of three Texaco refineries and marketing properties in Eastern and Gulf Coast states. More Texaco joint ventures may be ahead. An executive of a nationwide brokering service says a "very good source" reports Texaco is holding talks with Japan and Kuwait for joint ownership or sale of some or all of its West Coast properties.

—by Mark Emond

● MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

	Gasoline (All Types)	Leaded Regular	Unleaded Regular	Unleaded Premium
JUNE				
U.S. City Avg.	\$0.971	\$0.910	\$0.955	\$1.111
Regions				
Northeast	.984	.902	.948	1.120
North Central	.971	.927	.964	1.115
South	.957	.885	.936	1.096
West	.979	.927	.974	1.123

Source: U.S. Dept. of Labor, Bureau of Labor Statistics

STOCKS (Add 000 bbl.)

	7/29/88	7/31/87
Gasoline (Total)	209,795	229,628
Gasoline (Unleaded) *	130,845	135,655
Jet Kerosine	39,701	40,167
Distillates	117,967	114,364
Residual	40,659	42,863

* Included in gasoline total

Source: American Petroleum Institute

the non-Indian retailers who must compete with them. It's a safe bet to say that this is going to be in the courts for awhile yet."

Sun-Atlantic Deal Alters Mid-Atlantic Market

When it's completed this fall, Sun's deal to buy Atlantic Refining & Marketing Corp. is going to have greater impact in the three Mid-Atlantic states—New York, Pennsylvania and New Jersey—than anywhere else.

Sun will, for example, have 3,165 stations in the three states. By way of comparison, Mobil will have 2,979; Gulf (Cumberland

Farms), 2,511; Texaco, 1,664; Exxon, 1,550; and Shell, 578.

In addition, Sun will jump from No. 4 to No. 1 in Pennsylvania, vaulting over Mobil, Gulf and Texaco in that order. In New York, Sun will still be in second place behind Mobil but the difference will be 250 stations, not 500 or so as in the past. In the state, Mobil currently has 1,491 stations while Sun will have 1,243.

There's really no change of significance in the station totals in New Jersey. But, and this is a big but, the fact that Sun will have another refinery in the Philadelphia area available can't help but make a difference in

product availability down the road. Also, this refinery can handle sour crude which normally is priced at less than sweet crude in the marketplaces. Here's how the leaders stack up in the three states:

	Pa.	N.Y.	N.J.
Sun (orig.)	793	987	457
(buying)	657	256	15
Total	1,450	1,243	472
Gulf	877	832	772
Mobil	985	1,491	503
Texaco	795	454	415
Exxon	764	286	538
Shell	100	194	284

N-J



Dealer Lease Cancellation Creates Community Uproar

Dealer lease terminations aren't exactly uncommon, but they do occasionally still create a fuss. That's what happened when Amoco Oil Co. canceled the lease of Frank Del Medico, a 31-year Amoco dealer in Chicago, and provoked a serious protest in his local community.

Amoco says Frank Del Medico was late with 22 payments before his lease was terminated July 14. But that didn't carry a lot of weight for residents of Norwood Park, a community in Chicago where Del Medico's station was located.

More than 7,000 neighbors and friends, who live near Frank's Standard Station at 5737 Northwest Hwy., signed petitions and staged a rally asking Chicago-based Amoco to rescind its decision and allow the family-owned business to continue.

In the community, Frank, his son David and his brother Jim were more than just service station dealers, says Marlene Brown, executive director of the Norwood Park Chamber of Commerce. Brown, who headed the campaign to keep the Del Medico's in business says, "Amoco made a big mistake."

Despite all the community objections, Amoco says a federal court ruling reinforces

the oil company's position affirming that Del Medico violated his financial obligations when he failed to make his \$3,500 monthly lease payments on time.

In June, the Chamber of Commerce offered to manage a bank account for the dealer to assure the monthly payments would be on time; however, Amoco rejected the proposal

after promising the station to another branded dealer. The station is now being operated by Bill Venturini, who also operates two other Amoco stations. Venturini opened up shop July 15. Amoco says the station will continue to operate as a traditional service outlet.

"When they [Amoco] want you out they will get you out," says Frank, who's three-bay service station sold 1-million gal. gasoline a year.

Amoco admits that Del Medico was a good dealer and well-liked by the community. However, Bob Roemer, an Amoco spokesman says, "A business decision was made. Terminating a lease is something we don't take lightly. He was a good dealer, but he really forced our hand."

Because Del Medico was a "good" dealer for so many years, Amoco took "unprecedented" action when it agreed to give Del

Medico a second chance in 1986, even after he was late 19 times with his rent payments. Amoco granted the request under the condition that Del Medico sign an agreement stating that his payments would be on schedule or his lease would be terminated, industry sources say.

Under the terms of the accommodation contract, Del Medico agreed to voluntarily terminate his contract if his payments were late. Five-months after signing the agreement Del Medico was approximately 15 days late with his payment and Amoco terminated the lease.

Del Medico was delinquent a total of three times during the 18-months since the second contract was entered into. After a yearlong legal battle, on Aug. 15, 1987, a federal court judge ruled in favor of the oil company. On April 14, 1988, Del Medico's lease was discontinued and he was given 120 days to pack up. The court also awarded Amoco damages, but the major declined to pursue the monetary award if Del Medico agreed not to appeal and would accept the termination without continuing the legal battle.

Frank's brother Jim says, Amoco also violated its contractual agreement when it failed to deliver—on several occasions—credits owed to the Del Medicos', deliveries on gasoline and other supplies on time. He says sometimes the major was late as much as six months. "Amoco feels what they do is fine and what we do is wrong," Jim says. "Since the 1970s, Amoco has changed its philosophy. It doesn't care about dealers anymore."

Del Medico meanwhile has opened up a repair shop about a 1/2 block away from his previous standard station. "I'm going to be open from 6 a.m. to 11 p.m. seven days a week. I'm hardheaded and I won't give up so easily," says Frank. Del Medico is also looking to open another gasoline station, possibly with another oil company, but he says nothing has been finalized.

Indiana Marketers Hit Hard By Price Wars

The price of a gallon of gasoline in Indiana has "never been so crazy" says one local jobber. During the first week of July, postings



Frank Del Medico

Divorcement, Open Marketing Seen As Multi-Billion Dollar Pitfalls

A new study by a small but potent Washington group hypothesizes that Maryland-style divorcement legislation, if enacted in all 50 states, would add at least \$3-billion a year to consumer costs for motor fuels.

In its conclusions, the group paraphrased an editorial commentary in the Atlanta, Ga. Constitution which describes retail divorcement as a "terrible idea" whose prime purpose would be to "separate motorists from their money."

Retail gasoline marketing divorcement is an "idea without substance or merit," the study states, adding:

"It represents a legislative intrusion into a highly competitive marketplace, for reasons that are not borne out by the facts.

"State officials and federal regulatory agencies have testified that no evidence exists of predatory pricing by oil companies—pricing designed to drive independent gasoline retailers out of business. And that testimony is confirmed in academic and industry studies.

"The consequences of divorcement laws are higher prices and lower levels of service."

The carefully documented study almost sounds as though it had been prepared for or paid for by a coalition of major oil companies, or perhaps the industry's principal trade association, the American Petroleum Institute. The subject is controversial in the petroleum industry, make no mistake about that with many retailers and their associations seeking legislative relief and refiners-suppliers universally opposed to such marketplace restrictions. In 1987, 15 states considered divorcement bills. Nevada and

Georgia enacted laws, but the Governor vetoed the Georgia bill just as he did in 1984. Nine states are considering divorcement bills now but none have been enacted so far this year.

The fascinating part of this study is that the group that did it, The American Legislative Exchange Council, is totally independent of oil as an industry and API and/or any other association, including the two marketing biggies—Petroleum Marketers Assn. of America, and the Society of Independent Gasoline Marketers of America. As a matter of fact, all three associations confessed that they were "aware" of the council but really didn't know much about it.

The council is not a Johnny-Come-Lately on the Washington scene either. It has been doing business there for the past 15 years and it is known as a "very conservative" organization dedicated to the advancement of free enterprise.

It's small, with a staff of 22 and an annual budget of \$2-million or so. Its funds come basically from membership fees, \$25 a year, and legally authorized solicitation of funds from endowments, foundations and private businesses.

"We're not particularly interested in the oil or energy businesses," a spokesman says, "although we do have some oil company contributors; maybe as many as a half-dozen, I'm not sure. But we are not a lobbying organization, and we do not take sides or positions on legislative bills or proposals at federal and state levels."

He explains that the council's membership is made up of individual legislators in all 50 states, not all of them by any means, but at least 1,900 of 7,400 that would

nominal be eligible.

"Remember what I said," the spokesman adds. "These are individual memberships paid for or renewed annually by the legislators themselves, not their state governments or political parties. Their memberships are voluntarily and they can renew or drop out as they see fit.

"What we do is provide them with a legislative network and legislative trends. Our newsletters keep them informed on what's going on in various states and we provide them with debating platforms and forums devoted to specific subjects or trends."

The council's activities are directed by a board of 22. This year's chairman is David Halbrook, a Democrat and a member of Mississippi's state legislature.

The current study, "Retail Divorcement: Separating Motorists From Their Money," was prepared by Roop Mohunlall, director of the council's State Legislator Task Force on Energy, Natural Resources and the Environment."

"We've only done one or two energy-type studies in the past," he says. "We did this one because we thought it was an appropriate one to do. We did it on our own initiative too, not on anyone else's suggestion or recommendation."

The issue of divorcement i.e., the banning of retail gasoline marketing by integrated oil companies, has blown hot and cold in state legislatures and at the federal level for years. For example, divorcement was a major congressional issue in the mid '30s.

The study notes that at least 41 states have considered divorcement legislation since 1974 and that six of them as well as the Dis-

(Continued on page 30)

C-Store Industry Remains Healthy But Shows Signs Of "Maturing"

The number of convenience store outlets and total dollar volume they generated increased substantially in 1987. However, there were also some worrisome profit leaks in the C-store industry roof according to the "1988 State of the Convenience Store Industry" report released this summer by the National Assn. of Convenience Stores.

About three months ago, NACS released

selected highlighted data from its 1988 study [NPN-Aug '88, p25]. Data from that brief summary showed total C-store sales (gasoline included) increased to \$59.6-billion in 1987, up 10.6% from 1986. The number of C-stores grew 5.4% for the year to a total of 67,500.

Gasoline sales, which were up 14.6% to \$20.5-billion for the year, accounted for the lion's share of the overall increase, accord-

ing to NACS. Non-gasoline sales were up 2.7% in 1987.

But this good news was offset somewhat by data featured in the complete NACS study released later. Despite the fact that total sales increased by over \$5-billion, the association says, total industry profits before taxes declined from \$1.4-billion in 1986 to \$1.3-billion in 1987, a drop of 6.3%.

(Continued on page 30)

(C-Store... continued from page 29)

Average store profits dropped to \$19,200 in 1987 from \$21,900 the year before. NACS ascribes this shallower profit stream to higher operating costs, plus slimmer margins on gasoline sales.

On a per-store basis, pretax profits were down from 2.6% in 1986 to 2.2% in 1987, a development NACS attributed to a dropoff in average gross profit from 25.1% to 24.4% (see table). The report pinpoints a decline in gasoline margins—down from 11.2% to 10.6%—as a key factor, noting that in-store margins held steady in 1987 at close to 36%.

The average margin on gasoline for a C-store declined from 9.5¢ a gal. in 1986 to 9.1¢ in 1987. The average selling price per gallon in 1987 was \$0.88 versus \$0.85 the year before.

"Although there was an increase in the cost of (gasoline) in 1987," NACS says, "competitive pressures prevented the industry from increasing prices sufficiently to cover the total increase in cost."

Excluding gasoline, average store sales increased by 2.7% in 1987 to \$579,000. This works out to a rate of \$11,140 per week. Converting this to average sales per week per square foot, the study says stores increased their average sales of \$3.54 in 1986 to \$3.76 in 1987. Average sale per customer, excluding gasoline, was up slightly to \$2.03.

The average investment required for a new store (see table) continued to increase

Comparison of Profits and Losses: 1986-1987

	11-50 Stores		51-100		101-500		Over 500		Average	
	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987
Non-Gas Sales	39%	43%	56%	54%	50%	58%	64%	70%	60%	66%
Gas Sales	61	57	44	46	50	42	36	30	40	34
Total Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of Goods Sold	79.3	80.5	76.6	77.5	76.7	76.6	72.3	74.1	74.9	75.6
Gross Profit	20.7	19.5	22.4	22.5	23.3	23.4	27.7	25.9	25.1	24.4
Direct Store Operating Expense	14.4	14.3	17.6	16.8	16.8	17.9	19.9	19.0	18.3	18.2
Store Operating Profit	6.3	5.2	4.8	5.7	6.6	5.5	7.8	6.9	6.8	6.2
Corporate G&A	(3.4)	(3.2)	(3.5)	(3.7)	(4.8)	(4.2)	(4.5)	(4.4)	(4.3)	(4.2)
Other Income	.8	1.3	2.0	1.3	1.6	1.3	1.6	1.4	1.7	1.5
Other Expense	(.5)	(.4)	(.9)	(.8)	(1.4)	(.9)	(1.9)	(1.7)	(1.5)	(1.3)
Pretax Profit	3.3%	2.9%	2.4%	2.5%	2.0%	1.7%	3.0%	2.2%	2.6%	2.2%

Source: NACS "1988 State of the Convenience Store Industry" survey.

in 1987, although the increase was moderate compared to previous years.

Average cost of an urban store was up only 2.1% in 1987, NACS reported, while rural stores showed a 4.2% increase. Gasoline equipment costs actually declined in 1987, compared to the year before.

The average convenience store pumped 47,000 gal. a month in 1987, up from 46,000 gal. a month in 1986. The percentage of C-stores selling gasoline remained at about 59%, according to NACS.

About 75% of all new C-stores added in

1987 had gasoline facilities, down slightly from the 78% rate of 1986, but 50% higher than the 1984 rate.

According to the study, tobacco (20.7%), beer (13.6%) and soft drinks (9.7%) rank one, two and three in inside sales. Hot beverages (66%), fountain drinks (60%) and ice (56%) provide the highest gross margin return. Average annual inventory turn for non-gasoline merchandise was 11.1 in 1987.

The NACS study is based on responses from 150 companies that operate 23,255 C-stores.

Average Investment per New Convenience Store

	1983		1984		1985		1986		1987	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Land	\$147,900	\$89,800	\$170,200	\$108,700	\$212,800	\$110,800	\$275,400	\$141,500	\$266,000	\$156,900
Building	125,300	101,700	149,800	106,900	180,000	118,900	158,300	141,500	181,300	152,800
Equipment										
Fast Food	14,200	7,700	14,100	9,100	19,000	16,200	19,900	18,500	22,100	17,700
Gas	59,900	50,000	55,100	49,400	65,700	73,700	88,000	89,500	84,900	85,300
Non-Gas	53,600	48,000	61,000	39,300	63,300	48,100	68,300	55,300	64,500	51,500
Total Equipment	127,700	105,700	130,200	97,800	148,000	138,000	176,400	163,300	171,500	154,500
Inventory	50,000	45,000	46,000	42,800	56,900	43,100	58,600	50,100	64,000	53,200
Total Investment	\$450,900	\$342,200	\$496,200	\$356,200	\$597,700	\$410,800	\$668,600	\$496,400	\$682,800	\$517,400

Source: NACS "1988 State of the Convenience Store Industry" survey.

(Divorcement... continued from page 29)
trict of Columbia have enacted laws. These are Connecticut, Delaware, Florida, Maryland, Nevada and Virginia. Florida's law was invalidated by the courts and taken off the books in 1985. The one that's the cynosure of all eyes, however, is the Maryland law, enacted in 1974, but not implemented until July 1, 1979. It forced seven oil companies with a total of 170 direct-ops to alter their operations in that state, leasing some outlets to dealers, closing others and selling some for non-petroleum purposes.

The legislative council cited two studies in its commentary, one made by Prof. John Umbeck and John Barron of Purdue Univer-

sity for the federal Department of Energy in 1984 and a more recent one (Jan. 1988) by Prof. Philip Sorensen of Florida State University. The Sorensen study found that the divorce law had forced gasoline prices to rise roughly 3¢ gal. in Maryland. The council adds: "In both studies, it was found that the price rise usually was steepest at the full service pumps—meaning that senior citizens and handicapped motorists, who must depend on full service, were those hurt most."

Here are some excerpts from the council's study:

"Retail divorce represents an attack on the dual distribution system in gasoline

marketing, an attack that sets a dangerous precedent for many other businesses and industries [which] also use the dual distribution system for much the same reasons as do oil companies."

"In summary, no evidence is found that would lead to the conclusion that dual distribution is anti-competitive, harmful to independent dealers. On the contrary, dual distribution stimulates business and promotes competition which, in turn, reduces prices and improves service to the consumer. Splitting the dual market system would do just the opposite."

"Retail divorce represents a radical
(Continued on page 31)

(Continued from page 30)

form of government intervention in the marketplace. Essentially it constitutes a legislative restructuring of the highly competitive gasoline market, a move that would be justified only by evidence of predatory pricing practices on the part of refiners, practices designed to drive independent dealers out of business. No such evidence exists."

"Retail divorcement does not intensify competition, it stifles it. With divorcement, the removal of a class of competitors, America's 150-million motorists, would certainly have less freedom of choice. At present these motorists have the option to choose among hundreds of brands of gasoline at over 150,000 retail outlets, and can also choose between self service and full

service stations, between low-price, convenience outlets and stations that offer more traditional automotive services. Competition is what makes this wide range of choices possible, choices that would be curtailed by retail divorcement."

One industry observer notes: On the assumption that this was an independent study by a state legislative council, it certainly was a landfall for refiners and suppliers. Since the report has been mailed to all 1,900 members of the council, all of whom are elected state representatives, this means that one-third of the legislators now have a report from their own council that argues mightily against divorcement and open supply as unneeded and unwarranted pieces of legislation.

Open Supply Proposals Are As Bad As Divorcement, Council Says

In sharper language than it used in its caustic criticism of divorcement legislation in the gasoline marketing industry, the American Legislative Exchange Council sums up its opposition with these words: "Like retail divorcement, open supply is an incorrect solution to a nonexistent problem."

The council's divorcement study also says: "The cost to consumers of open supply legislation is indefensible, given the antitrust protections already available to individual gasoline dealers and the intensely competitive nature of the retail gasoline market."

Most branded lessee dealers, the council says, sell branded gasoline under contracts that provide for the dealer to buy a certain percentage of his/her gasoline supply requirements from the supplier from whom the dealer leases his retail outlet. The study says:

"Open supply proposals would legislatively abrogate this contractual provision in order to permit the lessee dealer to ac-

quire gasoline—including unbranded gasoline or gasoline of a different brand—from other suppliers and sell that gasoline through the leased outlet.

"Thus open supply would destroy the economic basis for branded service station dealership, operating contrary not only to the interests of motorists and refiners, but also to the interests of the branded dealers whom the open supply proposal is alleged to protect in the first place."

As a matter of fact, the study continues to note, "Open supply legislation could hurt the independent retailer by weakening the brand-name marketing system that gives thousands of small businessmen and businesswomen the opportunity to operate with far smaller capital investment than otherwise would be required."

Open supply, the report also states, could put refiners in the incredible position of not being able to legally insist that a dealer have adequate supplies of his brand at the station he owns but leases to an operator.

vention, PMAA is tackling the issue of "foreign integration" into the U.S. retail market, a topic that has attracted much marketer interest since the announcement of the Texaco-Saudi Arabia marketing arrangement in the Southeast.

Another session which PMAA says will appeal to marketers is a separate "management conference" designed specifically for management personnel of marketer firms.

For information and registration details, contact PMAA, 1120 Vermont Ave., NW, Suite 1130, Washington or call (202) 331-1198.

State Costs Would Be In The Billions

Motorists in at least eight states would have had to pay from \$100 to \$300-million more for their motor fuels had the Maryland divorcement law been enacted, according to the American Legislative Exchange Council.

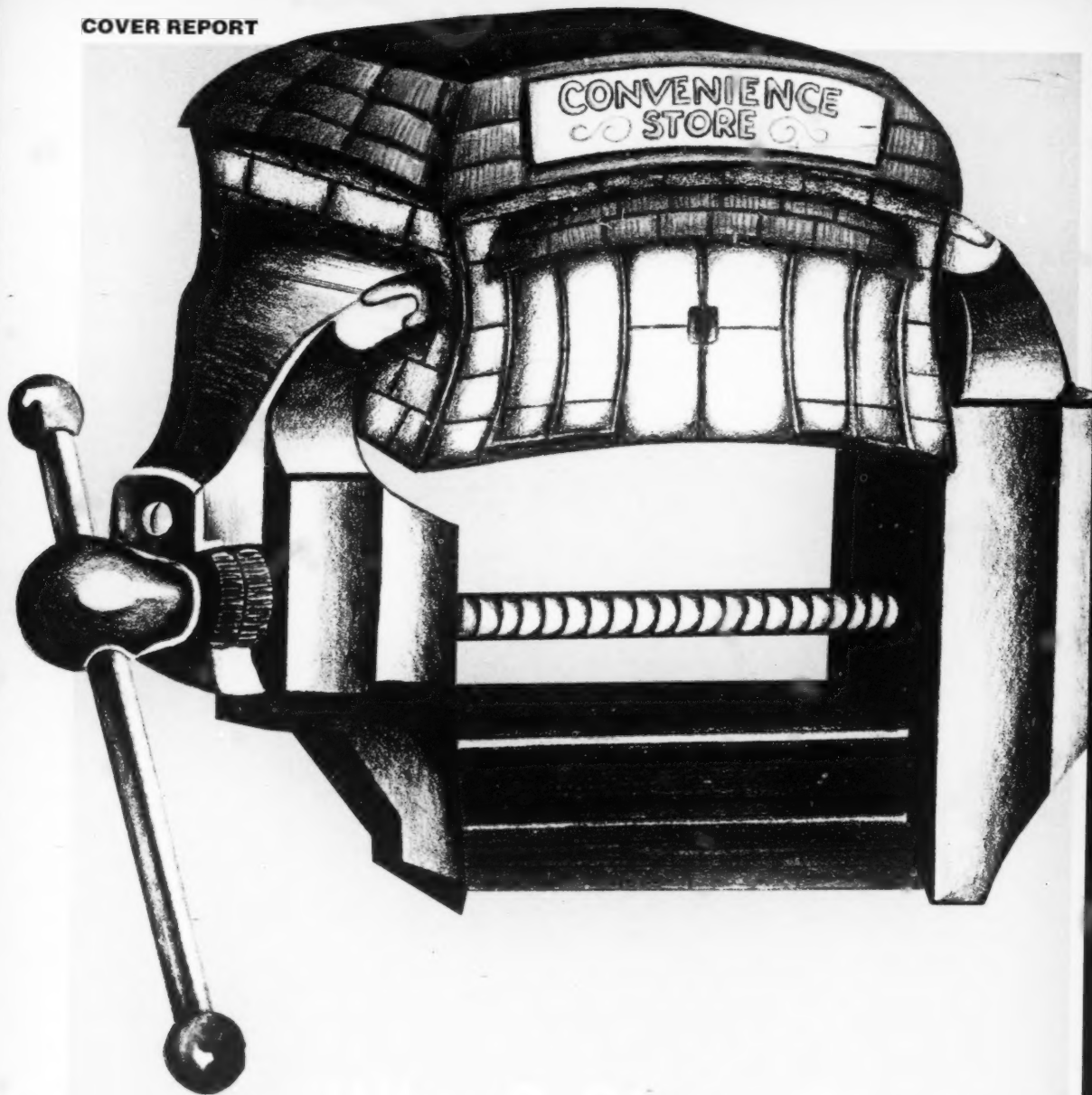
This is the state-by-state breakdown, hypothesized by the council on the gasoline cost increases in Maryland after the divorcement law had been implemented. Consumption data for the year 1985 were supplied by Federal Highway Administration. States with current retail divorcement have been omitted. Had they been counted in, however, the council says the national total would have been well in excess of \$3-billion.

State	Gasoline Consumption (thou/gal.)	Additional Costs Due To Divorcement
Alabama	1,881,466	\$ 56,443,980
Alaska	267,709	8,031,270
Arizona	1,561,181	46,835,430
Arkansas	1,166,202	34,986,060
California	11,656,251	349,687,530
Colorado	1,558,918	47,667,540
Florida	5,462,027	163,860,810
Georgia	3,148,673	94,460,190
Hawaii	349,709	10,491,270
Idaho	463,502	13,905,060
Illinois	4,836,654	145,099,620
Indiana	2,576,132	77,283,960
Iowa	1,369,838	41,095,140
Kansas	1,234,185	37,025,550
Kentucky	1,736,511	52,095,330
Louisiana	2,132,374	63,971,220
Maine	548,083	16,442,490
Massachusetts	2,388,603	71,658,090
Michigan	4,086,109	122,583,270
Minnesota	2,136,370	64,091,100
Mississippi	1,231,066	36,931,980
Missouri	2,614,239	78,427,170
Montana	441,744	13,252,320
Nebraska	777,136	23,314,080
Nevada	509,110	15,273,300
New Hampshire	446,902	13,407,060
New Jersey	3,311,078	99,332,340
New Mexico	783,404	23,502,120
New York	5,941,935	178,258,050
North Carolina	3,092,963	92,788,890
North Dakota	385,715	11,571,450
Ohio	4,739,030	142,170,900
Oklahoma	1,890,867	56,726,010
Oregon	1,254,669	37,640,070
Pennsylvania	4,429,756	132,892,680
Rhode Island	379,026	11,370,780
South Carolina	1,630,720	48,921,600
South Dakota	387,453	11,623,590
Tennessee	2,534,948	76,048,440
Texas	8,899,228	266,976,840
Utah	755,798	22,673,940
Vermont	252,812	7,584,360
Washington	1,912,436	57,373,080
West Virginia	801,431	24,042,930
Wisconsin	2,022,990	60,689,700
Wyoming	332,978	9,989,340

USTs To Be PMAA's Primary Theme

The impact on marketers of the Environmental Protection Agency's new underground storage tank regulations will be scrutinized at an opening day seminar during the upcoming annual meeting of the Petroleum Marketers Assn. of America. PMAA's 12th annual convention and trade show will be held in Atlanta, Oct. 8-12.

In addition to EPA's new rules, which are expected to be issued just prior to the con-



Why C-Store Chains Are Getting Squeezed

By Mark Emond
Contributing Correspondent
and NPN Staff

The convenience store market is in a period of transition which will likely alter the position of key participants and change the methods, objectives and economics of C-store operations.

Independent gasoline marketers have long been leaders in convenience store development—but now major and large independent oil companies are substantially increasing their involvement, putting traditional C-store chains in a squeeze.

Industry research portrays a market environment ripe for such a development. And opinions some industry observers

coupled with comments from both major and independent oil companies in an NPN survey of C-store activity (see chart on page 44) suggest the trend is underway.

Although precise figures on projected growth were not always available, most oil company spokesmen contacted in NPN's study indicated they were planning to increase their C-store activity. In fact, several which not long ago had virtually halted convenience store building, report they will move back into the market. And at least one which had previously ignored C-stores altogether, Amerada Hess, has reversed field. The tough east coast independent, a pioneer in multipump, gasoline-only stations, says it now finds C-stores worthy of development and plans to add an unspecified number each year.

Nonetheless, some marketers are wary. Caution is the watchword, they say, noting that although there may be opportunity in C-stores, some areas are saturated and success depends greatly on location. Moreover, they add, the costs of starting a C-store are often so high that a marketer could get a better return on investment, and at less risk, by using that capital in some other venture.

More on this later. Suffice to say, some respected veteran marketers are less than enthralled about of the C-store business in many areas.

Oil company edge

For some time, opinion has been growing that the C-store market in some parts of the country is at or rapidly reaching the saturation point. Most marketers would at least agree that the heyday of C-stores is, for the most part, past.

Why then are oil companies apparently increasing their involvement? The answer can be summed up in three words: Location, location, location. It is almost invariably mentioned as the critical factor for survival in the C-store market—and this is exactly what gives oil companies an edge. These established companies—not only the majors, but large independents and jobbers—have a superabundance of prime locations. Many were purchased cheaply in past years and represent a huge reservoir of excellent sites, giving their owners distinct advantage over any C-store company trying to expand. In a flat out building race, there's little chance C-store chains can keep up with oil companies.

This is already making itself apparent. For instance, a recent study by Bankers Trust, one of the largest merchant banks in the country and a specialist in mergers and acquisitions, supports this premise. The study, "Opportunities in the Convenience Store Industry," states that "Virtually all of the growth since 1986 was accounted for by major oil companies who have made a strategic decision to enter the convenience store industry."

It had to come to this. The stable of oil company prime locations exists because of the nature of the service station business. All it took was for oil companies to become C-store believers on a broad scale. That time has come.

With their own money bags and market-share ambitions, the oil companies are forging ahead, letting the traditional C-store chains do the looking out. Most companies interviewed are expanding at their recent rates or faster.

John Roscoe, one of the original traditional C-store marketers and a student and philosopher of the business, clearly recognizes the formidable threat of oil companies in the C-store business. "The oil company convenience effort is still in the early stages of development, but even the development to date is causing trouble for the old line chain convenience operators."

With his California chain of 107 "Food & Liquor" discount stores, which he considers an evolutionary step beyond C-stores, Roscoe concludes, "Convenience stores are no

longer a threat to the gasoline marketing system; the gasoline marketing system is a threat to the convenience store."

With the combined advantages of prime locations and their dominant position in gasoline marketing, the oil companies are expanding rapidly in C-stores. As petroleum marketers, they don't seem to worry about traditional C-stores. They are looking at different economics and objectives.

C-store expansion for oil companies essentially means combing through their abundant portfolios of sites and picking the right ones. Expansion for C-store chains essentially means scouting for good locations and trying to acquire them. The selection may not be all that good, and the prices are often very high and ever rising.

The Bankers Trust study also reflects this: "We believe many of the regional convenience store markets have now matured and will become increasingly saturated as the oil companies continue to muscle their way into these markets."

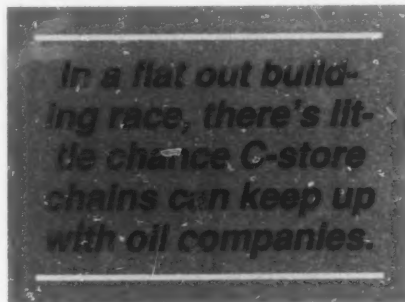
A straightforward interpretation of that comment is that oil companies aren't going to go down the tube because of C-store chains, but many C-store operators could well go belly-up because of oil companies.

What's more, a lot of traditional C-store chains apparently know

they're in a pinch. They are buying, selling, reorganizing, and merging on a massive scale, trying to improve the quality of their locations. These actions may well be their best bet. The Bankers Trust study, for instance, suggests that the C-store chains embark on exactly this kind of consolidation to gain economies of scale and concentrate in a few key markets. The study, in fact, recommends the chains go even further by developing a market-by-market strategy and exploiting regional opportunities.

Roscoe notes the same activity. "To date the convenience store companies have closed thousands of locations and relocated them to what they call 'prime sites,'" he says. "They don't seem to realize their new prime sites are still inferior to those already owned by the oil companies. They lost the battle a long time ago."

Why can't C-store companies fight back



COVER REPORT

effectively? Roscoe says the reasons are: "They don't have crude oil to turn into dollars, they don't have the world's best convenience locations, and even the biggest convenience store companies are financial pygmies compared to the oil companies."

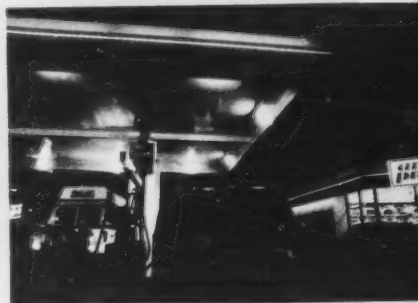
Massaging the numbers

A little analysis and extrapolation of recent industry figures also gives an indication of what is happening, why it's happening and how the scenario may unfold.

In its "1988 State of the Convenience Store Industry" report, for instance, the National Assn. of Convenience Stores indicates that average C-store pre-tax profits dropped for the third straight year in 1987 while total investment for a C-store continued to increase.

The report states that average C-store profits during the most recent peak year of 1984 were \$23,100 annually. From 1985 to 1987, the average fell to \$22,800, \$21,900, and \$19,200, respectively. Meanwhile, costs for starting a C-store just between 1986 and 1987 increased from \$668,600-\$682,800 in urban areas, and from \$496,400-\$517,400 in rural areas.

In short, you're paying more and getting less return for your money if you open a new C-store. What this means is that many older



The major and large independent oil companies are really rolling into the C-store market. The big edge they have over traditional C-store chains is their substantial inventory of excellent locations, initially purchased for gasoline stations, but ideally suited for C-stores. To expand in the C-store market all they need to do is select from the best of these sites. The chains must scout out good spots and the property they purchase will be highly expensive.

C-stores may survive, but new ones may not. The NACS report, prepared by Arthur Andersen & Co., specialists in the field of retail food-industry surveys, and Gerke Economics Inc., analysts, says: "It is clearly evident that annual sales and profits for new stores will need to exceed the averages for existing stores by a sizeable amount to insure the recovery of the substantial investment required for a new store."

"With the reduction in profitability, the industry must not only show substantial increases in new store sales, but must also show improved profits in order for new stores to show an adequate return on investment."

Even more revealing are figures which distinguish between traditional C-store chains and petroleum marketer chains, an important distinction because it shows how oil companies and C-store chains can and are going about the business differently.

Petroleum C-stores are, for example, expanding much faster than traditional C-store chain stores, according to *Convenience Store News*. The magazine reports that the total C-store population increased by 4,000

(from 76,000 in 1986 to 80,000 by the end of 1987), but of this, 3,000 were opened by oil companies.

Convenience Store News defines traditional C-stores as those run by an independent owner or company organized specifically for operating a C-store business, noting that although many also sell gasoline, their roots are in selling merchandise, not petroleum. Petroleum marketers are defined as those who specialize in the distribution and/or sale of gasoline—companies which "were organized for the purpose of establishing retail outlets for gas."

Using these definitions, the publication says about 75% of petroleum C-store companies plan to construct new stores during 1988, while only 53% of traditional companies do, and comments that: "It is apparent that the growth of new outlets will continue to come from the smaller but more aggressive petroleum marketer segment."

The NPN study also reflects a slowdown in growth of traditional C-store company outlets. Southland Corp., for instance, the nations leading C-store chain, says the number of 7-Elevens' being built is leveling off.

C-store chains are buying, selling and consolidating, but the bottom line for most of them is that their rate of growth is slowing. Southland Corp., for instance, the nations leading C-store chain, says the number of 7-Elevens' being built is leveling off and projects that after 1990 no new stores will be built. Then it plans to open 105 C-stores and close 105 each year, strengthening its position in specific markets. Houston-based National Convenience Stores, added outlets in recent years, but at a slower rate. In 1986, they added 74 stores, but in 1987, they added only 31 and during their fiscal year 1988-1989, they plan to add only 23.



Faced with lower margins, some marketers have gone to 24-hour C-store operations and put more emphasis on fast food, delis and specialty food items such as ice cream.

In fact, after 1990, Southland projects that no new stores will be built. Rather, it plans to open 105 C-stores and close 105 each year, strengthening its market position in designated areas.

Houston-based National Convenience Stores, has been increasing their number of stores in the past few years, but at a slower rate. In 1986, they added 74 stores, but in 1987, they added only 31. And the company says that during their fiscal year 1988-1989, they plan to add only 23.

(This isn't always the case, however. Convenient Food Mart, Rosemont, Ill., is an example. Its number of C-stores has risen from 1,316 in 1986, to 1,345 in 1987 to 1,450 this year. And they plan to open 140 in 1989.)

Following are some other statistics in the *Convenience Store News's* annual convenience store industry report worth noting regarding traditional C-store company and oil company/petroleum marketer activity in the market.

- Merchandise sales at C-stores in 1987 amounted to \$40.1-billion; gasoline sales, \$32.3-billion, or 45% of the total C-store sales. (The NACS study reports smaller

1987 totals generally: 67,500 C-stores grossing \$59.6-billion, of which \$39.1-billion was from merchandise and \$20.5-billion from gasoline, or 34%. There is no way to reconcile these differences.)

- In 1987, 52,000 C-stores (65%) were operated by traditionals and 28,000 (35%) by petroleum marketers. Only 62% of the traditionals offered gasoline, while 92% of the petroleum marketers did. Overall, 73% offered gasoline.

- Petroleum marketer outlets pump more gasoline, on average, than those of traditional C-store companies: 644,400 gal. a year (53,700 gal. a month) for petroleum C-stores and 485,400 gal. a year (40,450 gal. a month) for traditional companies. For the entire year 1987, traditional C-stores took in \$473,000

on gasoline (97.4¢ gal. average), while petroleum C-stores obtained \$662,000 on gasoline (99.6¢ gal. average).

More petroleum C-stores sold major gasoline brands, 77%, than traditional C-stores, 64%. (The top five major brands at traditional stores were Mobil, Amoco, Texaco, Phillips, and Shell, in that order. The top five at petroleum C-stores were Phillips, Shell, Amoco, Texaco, and Citgo, in that order.)

- Traditional C-stores sell more merchandise than petroleum marketers: \$550,000 vs. \$410,000 annually, on average. The reason given is that traditional locations have larger stores and a wider assortment of items for sale. The magazine says fully 82% of traditionals fall in the range of 1,800 to 3,000-

Small-Town C-Stores: A Niche Or Not A Niche?

Small towns, sometimes called rural, are believed to be a niche in which C-stores can expand and operate more profitably without the competitive pressures and costs of urban locations. This appears to be at least partially true, but there are discordant voices.

John Roscoe, in his 17th annual survey of the C-store business, says small towns have an advantage. "Gasoline margins are generally a bit better," he explains. "Inventory shortages are often less because people who have their roots in an area generally behave better. More important, the costs of operation are generally less."

Roscoe says Casey's General Stores, Des Moines, Iowa, is a case in point. "The management of Casey's seems to understand that convenience stores have to have costs that match their function. They are young enough to stay in the business awhile, and they're getting rich."

Roscoe believes Casey's is successful because of its small-town philosophy:

"They supply some of the general store and some of the restaurant functions in those places. They may be the Wal-Mart of the convenience-store business. They have low costs. They state they can buy the land,

building, equipment and inventory for about \$250,000. These are 10 to 15 years ago costs. They own most of the real estate.

"They appear to have retailing discipline. As opposed to other convenience retailers, there are some things they won't do and don't sell. They have major protection from competition. Location is not as important in a small town. The major oil companies aren't likely to open competitive units in those towns."

Many of Roscoe's comments could apply to small-town C-stores everywhere.

But Casey's has been having trouble recently maintaining gasoline volume and has resorted to giving away some of the higher margins small-town C-stores are known for. Experiencing a volume decline, Casey's recently cut gasoline prices. The

company felt most of its customers lived in larger cities where prices were lower. The price-cutting bounced gasoline volume back, and even increased inside sales, but

the margins of old were lost, perhaps irretrievably.

There's still another side to small-town C-store marketing: competition can hit you harder. Most of Tom Love's 100 C-stores are located in small towns, mainly in Oklahoma, Kansas, and Texas, and he reports some are

starting to become saturated. He says when small towns are saturated it's worse on competition because "you can lose 20% overnight."

Small towns may protect a C-store operator from the worst competitive dangers, but there appear to be other problems that require solutions of their own.



Casey's General Stores has carved a niche in Des Moines, Iowa, by knowing the rural community and catering to it where most traditional major oil companies aren't likely to open competitive units in those towns.

sq.ft. Only 33% of petroleum C-stores are that size. Some 50% fall in the range of 800 to 1,800-sq.ft.

NPN average calculations, on the other hand, arrive at an approximate average of 2,320-sq.ft. for traditional C-stores, 1,550-sq.ft. for petroleum C-stores.

Because petroleum C-stores are generally smaller, they stock fewer items, 2,025 on average, while traditional C-stores stock an average of 3,350 items. But petroleum stores outstrip traditional stores by far in the total value of inventory because they store much more gasoline. The total value of inventory at petroleum stores is \$82,500, but only \$49,300 at traditional stores.

Marketer concerns

It is mainly the figures on costs of starting a C-store in relation to the profit flow of those stores which has some marketers viewing the C-store business with skepticism. The numbers seem to be substantiating what they actually see occurring in some of their marketing areas.



Because they specialize in merchandising and normally have more floor space, C-stores operated by chains such as Circle K sell on average about \$550,000 annually compared to about \$410,000 annually for petroleum marketers. As could be expected, however, petroleum marketer outlets sell an average of 13,000 gal. of gasoline more per month than a C-store.

NPN'S CONVENIENCE

COMPANY	HO LOCATION	C-STORE NAME
AMERICAN PETROFINA	Dallas	FinaServe
AMOCO OIL	Chicago	Food Shops
ARCO	Los Angeles	am/pm mini market
ATLANTIC R & M	Southeastern, PA	A-Plus
BERWICK BAY	Morgan City, LA	Friends
BP AMERICA	Cleveland	Sohio Food Mart
CHEVRON	San Francisco	Food Mart
CIRCLE K	Phoenix, AZ	Circle K
CITGO	Tulsa, OK	Quik Mart
COASTAL	Houston	Coastal Mart
CONOCO (KAYO)	Houston	Jet
CONVENIENT FOOD MART	Rosemont, IL	Convenient Food Mart
CROWN CENTRAL	Baltimore	Zippy Mart
		Fast Fare
CUMBERLAND FARMS	Nashville, TN	Cumberland Farms
DIAMOND SHAMROCK	San Antonio	Diamond Shamrock
EMRO MARKETING	Springfield, OH	Speedway
EXXON OIL	Houston	Exxon Shops
GETTY PETROLEUM	Plainview, NY	Getty Marts
MAPCO	Tulsa, OK	Delta Express
MOBIL OIL	New York	Mobil Mart
MUSKET CORP.	Oklahoma City	Love's Country Stores
NATIONAL C-STORE	Houston	Stop N Go
PHILLIPS	Bartlesville, OK	Food Plaza
PILOT OIL	Knoxville, TN	Pilot
QUIKTRIP	Tulsa, OK	QuikTrip
SHELL OIL	Houston	Food Marts
SOUTHLAND	Dallas	7-Eleven
SUN OIL	Philadelphia	Stop-N-Go
		Sunoco Food Mart
TEXACO	Houston	Food Marts
TOTAL PETROLEUM	Denver	Total
		Vickers
		Apco
TRUMAN ARNOLD	Texarkana, TX	Road Runner
UNOCAL	Los Angeles	Mini Marts

n/a—Precise figures not available and/or not disclosed by company. Although some companies stated they intend to add stores later this year and in 1989, they were uncertain exactly how many or considered this information proprietary.

nc—No change

Jack Malone, a veteran Memphis marketer, is among them. He says marketers should be extremely cautious about entering the C-store business today, adding that he doubts many of the stores now being built by the oil companies and C-store chains will pay off. The biggest hang up, says Malone, is the large investment required to start a C-store in what could be already overbuilt

markets. (See "Looking Things Over," page 26).

A similar opinion is held by Truman Arnold, Truman Arnold Companies. Noting the increased cost of opening one of his Road Runner outlets, he says he can still get a good return but that they are being run as 24-hour operations and selling fast food.

The company's senior vice president,

STORE SUMMARY

1986 TOTAL	1987 TOTAL	1988 CURRENT	1988 PROJECTED	ADDITIONS PROJECTED IN 1989	SIZE SQ. FT.	
					MINI	FULL
120	115	150	200	150-200	800	1,500
n/a	n/a	1,000	1,100	n/a		1,200
n/a	n/a	782	n/a	n/a		2,500
n/a	n/a	270	n/a	n/a		1,600/2,000
n/c	43	42	45	n/a	400	2,400
n/a	n/a	620	n/a	n/a	1,000	1,500
n/a	n/a	2,672	n/a	n/a	350	1,000
n/a	3,507	4,097	4,632	n/a		2,600
n/c	14	15	n/c	n/c	900	1800
n/a	n/a	900	950	n/a		2,000
n/a	469	486	n/c	50		1,200/1,600
1,316	1,345	1,450	1,500	140		3,000
n/c	n/c	470	480	n/a	500	2,000
n/a	n/a	1,200	n/a	n/a		2,000/3,000
494	510	529	549	40		1,200
618	621	675	702	75		3,375
n/a	n/a	375	n/a	n/a		1,100
n/a	n/a	300	310	40	600/1,000	2,000
n/c	n/c	300	n/a	36		2,400/2,700
n/a	n/a	800	n/a	n/a	600	
n/c	n/c	100	n/c	n/c		1,800/4,000
1,095	1,169	1,200	n/c	23		2,021/3,090
68	113	136	156	44	800	
n/c	n/c	115	125	10		2,200/2,500
217	230	252	n/c	19		3,200
n/a	n/a	1,100	n/a	n/a		1,000/2,600
8,181	8,250	7,447	n/a	n/c		2,400
n/a	n/a	485	n/a	n/a	300	2,000/2,400
n/c	n/c	900	n/c	n/c		1,000
423	430	470	n/c	15	800	1,500
n/a	n/a	100	112	18		3,500
n/a	n/a	2,500	n/a	n/a	500/1,000	2,200

Tony Arnold, adds another perspective. "Sometimes there is a better alternative for real estate in a specific market." He says the firm "eliminates stores not doing well. Some sites don't meet the criteria to make a worthwhile return."

Tom Love, owner of Musket Corp., which operates Love's Country Stores, says the "Market is saturated and overbuilding is the

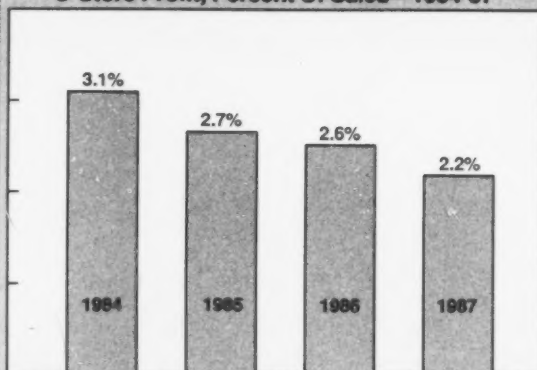
general trend." He stresses that marketers entering the C-store business be extremely selective in the areas they choose.

A spokesman for Emro Marketing (Marathon) gives the same appraisal, stating that there still are some opportunities but "success depends on location."

On the other hand, marketers point out that the market—as a whole—is not

saturated and that there are locales where C-stores can still do relatively well. The overbuilt areas are mainly urban; many rural areas are not yet saturated, although they also may soon reach that point.

And, despite the increasing competitiveness of the C-store business, some operators are doing well or at least holding their own. It's tougher, they say, but it can be done.

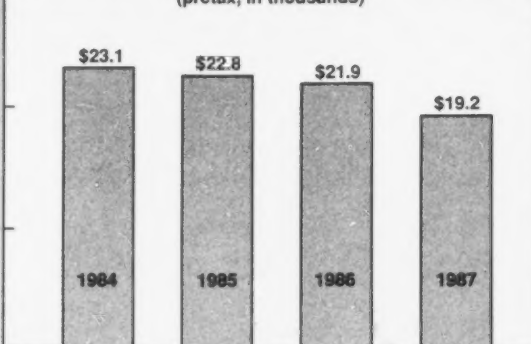
C-Store Profit, Percent Of Sales—1984-87*

*Pretax, includes gasoline

Source: NACS "1988 State of the Convenience Store Industry" report. Charts by NPN.

Average Profit Per C-Store—1984-87

(pretax, in thousands)



One of the key factors is quality. This, they say, will dictate which C-stores will be around in the next five to 10 years.

"I think quality will play an even greater role than it has in the past. The products, people and services provided will determine what stores will exist," says James Alligood, MAPCO vice president of retail marketing. MAPCO operates Delta Express stores.

Tom Love says essentially the same thing. The best way to survive today, he contends, is by "standing out . . . from the thundering herd." You have to be better than your competitors. "We do delis better than anyone else. We are constantly modifying our grills and adding other new features. You have to be dynamic and innovative."

CFM CEO James Risberg says the market

still has room to grow for those C-stores which "constantly offer new and improved ways of servicing the community."

The bottom line is that the C-store market is no longer a turkey shoot. The price cutting and lower margins which began surfacing just a few years ago are probably here to stay as the majors and large independents increase their presence in the market. **NPN**

Little Stores With Big Bite

Many petroleum marketer C-stores are mini-marts or kiosks with limited space for merchandise. Many are converted salesrooms with even fewer items. While this kind of store might seem like no more than a nuisance, it is considered a serious drain by full-line C-stores, both traditional and petroleum.

The reason is that the little stores skim off precious sales at a time when many C-stores are having a difficult time maintaining income and profits. Every time a potential customer picks something up at a little petroleum mart, he is probably a lost customer for a larger C-store.

This is why the C-store industry views with concern oil company programs like the one Texaco recently announced, to help stations convert salesrooms to C-stores [*NPN*—April '88, p25].

In a national program aimed at both jobbers and dealers, Texaco is trying to convert salesrooms to mini markets as a means of increasing gasoline sales and improving station profits.

For its 2,400 direct-delivered stations and 13,600 indirect (jobber) stations, Texaco is urging full service marketers at approved locations to invest \$16,000-\$17,000, plus inventory, to convert salesrooms to convenience stores. Texaco would provide four different conversion designs, construction plans, suggested inventories, and so forth, plus leasing of dis-

pensing machines.

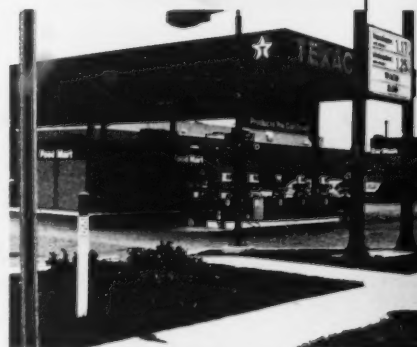
Texaco believes the little stores would generate from \$3,000 a month to as much as \$10,000 a month in revenues. Even in the \$3,000-\$4,000 range, with a 30% margin on the products sold, the retailer would be expected to earn a return on investment of 30-35% or more.

Texaco's expressed intention is to stop the migration of customers to "the big gas wars" and C-stores.

Nobody knows how many Texaco salesrooms will be converted to mini markets, but the potential is gigantic.

John Roscoe, The Customer Co., Concord, Calif., in his 1988 "17th Annual Dollars Per Day Survey of the Convenience Food Store Industry," writes, "Every gasoline station that sells a little bit of convenience takes away from convenience-store food product sales. With less sales, you develop less margin and pretty soon costs aren't being covered. When that happens, you must begin to close locations and relocate them on 'prime sites.'"

Commenting on the massive closure of gasoline stations since the early 1970s, he says, "Convenience store gasoline sales helped create the problem. It was fun when it was happening to gasoline stations. Convenience stores took away a little gasoline business and that made many gasoline stations uneconomic. Now gasoline stations are taking away a little convenience food



Many of the oil companies, like Texaco, are converting their salesrooms into mini markets or kiosks as a means of luring customers away from the traditional C-store. More customers also mean increased gasoline sales and improved station profits.

store business and that makes the convenience food store uneconomic."

In recent years Roscoe has culled out 53 of his stores, which used to be called "Shortstop," because they didn't fit his new image. His Food & Liquor "discount" stores typically have 4,000-5,000-sq.ft. of space, with some up to 6,000-sq.ft., and do 200,000-300,000 gal. a month.

Stores like those envisioned by Texaco, together with many existing mini-marts and kiosks of other oil companies, may not be especially profitable, but they are a deadly threat to traditional C-stores.